

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2013-42-S

IN RE:)
)
Application of Palmetto Utilities, Inc.)
for adjustment of rates and charges)
for, and modification to certain terms)
and conditions related to,)
the provision of sewer service.)

DIRECT TESTIMONY OF
DONALD J. CLAYTON

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Donald J. Clayton. My business address is 301 Oxford Valley
3 Road, Suite 1604, Yardley, Pennsylvania, 19067.

4 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the Principal in charge of management consulting at Tangibl, LLC.

6 **Q. HOW LONG HAVE YOU BEEN EMPLOYED AT TANGIBL, LLC?**

7 A. I have been employed at Tangible, LLC since April of 2007.

8 **Q. PLEASE DESCRIBE TANGIBL, LLC.**

9 A. Tangibl, LLC is a professional services firm serving water, wastewater,
10 waste services and energy utilities.

11 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

12 A. I have Bachelor of Science in Civil Engineering and Masters of Business
13 Administration degrees from Rensselaer Polytechnic Institute.

14

15

1 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

2 A. Throughout my career I have served public utilities in consulting and
3 executive capacities. Recent assignments include preparation of rate cases, cost
4 of service and rate design studies for gas and water utilities, and depreciation
5 studies for electric, gas, water, wastewater, thermal and railroad companies. My
6 work experience is further detailed in my resume which is attached hereto as DJC
7 Exhibit 1.

8 **Q. DO YOU HOLD ANY PROFESSIONAL CERTIFICATIONS?**

9 A. Yes. I am a Registered Professional Engineer in Pennsylvania. I am also,
10 a Chartered Financial Analyst and a Certified Depreciation Professional.

11 **Q. HAVE YOU HAD FORMAL TRAINING RELATING TO UTILITY**
12 **ACCOUNTING AND RATEMAKING?**

13 A. Yes. I have completed utility accounting and ratemaking seminars offered
14 by Price Waterhouse and Salomon Brothers. I have also completed 5 one-week
15 programs offered by Depreciation Programs, Inc. in the areas of actuarial and
16 simulated life analysis, forecasting of life and net salvage, and preparing and
17 managing depreciation studies.

18 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY TO THE PUBLIC**
19 **SERVICE COMMISSION OF SOUTH CAROLINA?**

20 A. Yes. I submitted direct testimony in Docket Number 2011-24-S.

21 **Q. HAVE YOU PRESENTED EXPERT TESTIMONY IN RATE RELATED**
22 **PROCEEDINGS BEFORE OTHER REGULATORY AGENCIES?**

23 A. Yes. My recent testimonial history is attached hereto as DJC Exhibit 2.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to support the application for rate relief of
4 Palmetto Utilities, Inc., which I will refer to from time to time in my testimony as
5 “Palmetto” or the “Company”, and sponsoring Exhibit B to the application as
6 filed with the Commission in this proceeding.

7 **Q. WAS EXHIBIT B TO THE APPLICATION PREPARED BY YOU OR**
8 **UNDER YOUR SUPERVISION?**

9 A. Yes.

10 **Q. WOULD YOU PLEASE DESCRIBE WHAT EXHIBIT B TO THE**
11 **APPLICATION SHOWS?**

12 A. Yes. Exhibit B consists of 5 schedules, A through E. Schedule A is the
13 Company’s balance sheet as of September 30, 2012, set out by National
14 Association of Regulatory and Utility Commissioners, or “NARUC”, Uniform
15 System of Accounts, or “USOA”, for Class A Wastewater Utilities accounts.
16 Schedule B is the Company’s income statement for the year ended September 30,
17 2012, including per books amounts, pro-forma adjustments, pro-forma amounts at
18 present rates, proposed increase and pro-forma proposed amounts, again by
19 USOA account. Schedule C shows the Company’s billed revenue at present and
20 proposed rates by customer classification for the test year ended September 30,
21 2012. Schedule D shows the company’s original cost, pro-forma additions and
22 retirements, pro-forma original cost, service life, annual depreciation rate and pro-
23 forma depreciation expense by USOA account for Plant in Service and

1 Contributions in Aid of Construction, or "CIAC", as of September 30, 2012.
2 Schedule E shows the actual number of customers and Equivalent Residential
3 Customers, or "ERCs," for Commercial and Industrial and Multi-family
4 Residential and Single Family Residential customer classes as of September 30,
5 2011, September 30, 2012 and projected as of September 30, 2013.

6 **Q. WHAT IS THE OVERALL RATE INCREASE THAT PALMETTO IS**
7 **SEEKING AT THIS TIME?**

8 A. Palmetto is seeking additional service revenue of \$1,471,758. To achieve
9 this level of additional revenue, the Company is requesting that the monthly
10 charge per single family equivalent be raised by \$6.00 from \$33.00 to \$39.00,
11 which is an 18.19% increase in the rate.

12 **Q. WHEN WAS A GENERAL RATE INCREASE LAST REQUESTED BY**
13 **THE COMPANY?**

14 A. The Company's last rate application was filed in March of 2011.

15 **Q. WHY IS PALMETTO REQUESTING RATE RELIEF AT THIS TIME?**

16 A. For the test year ended September 30, 2012, Palmetto earned just a 5%
17 operating margin on a pro-forma basis at present rates. This margin is well below
18 the 14.86% operating margin authorized by the PSC in Palmetto's last case.
19 Without rate relief Palmetto will be unable to continue to meet its financial
20 obligations and to attract investment capital for plant expansions and
21 replacements. Such a scenario places in jeopardy the Company's ability to
22 continue to provide safe, reliable and efficient sewer utility services to its
23 customers.

1 **Q. WHAT HAS BEEN THE COMPANY'S EXPERIENCE WITH THE COSTS**
2 **OF OPERATION SINCE ITS LAST RATE INCREASE?**

3 A. It has been more than two years since the Company's last rate filing and
4 nearly three years since the end of the test year used in its last rate case. In that
5 time, the Company's expenses have increased. The Company has incurred
6 increased operational expenses for materials and supplies, insurance, and
7 overhead, and interest. In addition, taxes and depreciation expense have also
8 increased. Also, the Company continues to make capital expenditures at the
9 treatment plant and throughout the collection system, having incurred
10 approximately \$5,470,131 in capital expenditures since the test year in its last rate
11 relief proceeding.

12 **Q. BASED ON THE TEST YEAR DATA AS ADJUSTED, WHAT**
13 **OPERATING MARGIN RESULTS AFTER THE REQUESTED RATE**
14 **INCREASE IS CONSIDERED?**

15 A. Based on the adjusted test year data and the requested rate of \$39.00 per
16 ERC per month, the resulting operating margin is 15%. The 15% operating
17 margin is within the range of operating margins the Commission has approved for
18 other sewer utilities.

19 **Q. PLEASE EXPLAIN HOW TEST YEAR REVENUES AND EXPENSES**
20 **WERE ADJUSTED.**

21 A. Pro forma adjustments were made to test year revenues and expenses
22 based on known and measurable changes.

1 **Q. WHAT ADJUSTMENTS WERE MADE TO THE PER BOOKS**
2 **INCOME STATEMENT ON SCHEDULE B?**

3 A. The adjustments to the per books income statement on Schedule B include
4 annualization of current electricity rates, annualization of the current contractual
5 service costs, increases in costs related to a new billing system, a revised
6 overhead allocation that Mr. Wallace discusses in his testimony, amortization of
7 rate case expense over a three-year period, increase in depreciation expense
8 related to pro-forma capital expenditures, increase in income taxes related to all of
9 the other adjustments and to remove non-recurring items. The specific
10 adjustments are detailed at the bottom of Schedule B.

11 **Q. HAVE THE COMPANY'S EXPENSES INCREASED SINCE THE LAST**
12 **RATE CASE?**

13 A. Yes. For the test year ended April 30, 2010, which was used in the last
14 case, the company had approved expenses of \$5,550,661. For the year ended
15 September 30, 2012, or the current test year, the Company's total pro-forma
16 expenses \$6,470,349. Thus, the company's expenses have increased by \$919,688
17 since the last rate case.

18 **Q. HAS THE COMPANY MAINTAINED ITS CONTINUING PROPERTY**
19 **RECORDS?**

20 A. Yes. The Company has maintained its continuing property records.
21

1 **Q. HOW DO THE PLANT IN SERVICE, CIAC AND RELATED**
2 **DEPRECIATION AND AMORTIZATION AMOUNTS AFFECT THE**
3 **COMPANY'S REVENUE REQUIREMENT?**

4 A. If the Company's plant and CIAC balances change, depreciation expense
5 will have to be adjusted accordingly.

6 **Q. HOW WERE THE PLANT, CIAC, ACCUMULATED DEPRECIATION**
7 **AND ACCUMULATED AMORTIZATION BALANCES AS OF**
8 **SEPTEMBER 30, 2012 DETERMINED?**

9 A. The April 30, 2010 balances from the last case were brought forward
10 based on the additions and retirements from May 1, 2010, to September 30, 2012.

11 **Q. WERE THERE ANY PRO FORMA ADDITIONS OR RETIREMENTS TO**
12 **PLANT INCLUDED IN THE BASIS FOR DEPRECIATION IN THIS**
13 **CASE?**

14 A. Yes, the additions and retirements from October 1, 2012, to December 31,
15 2012, which were made outside of the test year and the Construction work in
16 progress that was expected to be in service before June 30, 2013, were reflected as
17 pro-forma additions and retirements and were included in the basis for the
18 depreciation expense in this case. The original cost and depreciation schedule on
19 per books and pro forma bases are shown in Schedule D of Exhibit B.

20 **Q. WHAT IS THE PROPOSED RATE INCREASE DESIGNED TO**
21 **ACCOMPLISH FOR THE COMPANY?**

22 A. An increase in Palmetto's current rates is designed to generate additional
23 revenues that will allow the Company to adequately fund its operations, attract

1 capital, comply with regulatory requirements and continue to provide excellent
2 sewer service to its existing and future customers.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A.** Yes. It does.



DONALD J. CLAYTON / Vice President

Mr. Clayton has over 30 years' experience in the energy utility industry and management consulting profession. His experience includes financial and treasury management, including his role as Vice President and Treasurer at DQE, at that time the parent company of Duquesne Light Company. Mr. Clayton also has extensive experience in new venture creation, as President of the AquaSource venture at DQE and President and Chief Operating Officer of Conjunction LLC in New York State. In his management consulting roles, Mr. Clayton's technical specialties include public utility valuation, depreciation, plant, rate base, cost of service and rate design as well as economic analysis and financial modeling.

Mr. Clayton holds a Bachelors of Science in Civil Engineering and a Master of Business Administration from Rensselaer Polytechnic Institute. He is a registered Professional Engineer in the Commonwealth of Pennsylvania, a Chartered Financial Analyst, as well as a Certified Depreciation Professional.

Professional Experience

2007 – PRESENTTANGIBL, LLC
 VICE PRESIDENT – MANAGEMENT CONSULTING

As Vice President of Management Consulting at Tangibl, LLC, Mr. Clayton is responsible for a wide range of assignments including depreciation studies for electric, gas, water, wastewater, thermal and railroad companies and cost of service and rate design studies for electric, gas and water utilities.

2005 – 2007GANNETT FLEMING, INC.
 DIRECTOR, REGULATORY ECONOMICS

Representative assignments include d:

- *Allegheny Energy, Inc., Greensburg, Pennsylvania* – Depreciation Studies of Regulated Electric Companies in West Virginia and Unregulated Generation Plant. The studies included development of annual depreciation rates for regulated electric plant in service in West Virginia and the unregulated generating plant throughout the system. Elements of the study included a field inspection of power plants, major substations, operations centers and office buildings; discussions with management regarding outlook; statistical analyses of service life and net salvage, and calculation of annual and accrued depreciation using several alternative bases and procedures. The depreciation study for the regulated West Virginia Utilities was filed with the West Virginia Public Service Commission in September 2006.
- *Citizens Gas and Coke Utility, Indianapolis, Indiana* – Depreciation Studies of Gas and Thermal Plant. The studies involved development of annual depreciation rates for gas and thermal plant. Field inspections of the facilities were performed, discussions with management regarding outlook were held, statistical analyses of service life and salvage data were conducted and annual and accrued depreciation were calculated.
- *East Kentucky Power Cooperative, Winchester, Kentucky* – Depreciation Studies of Electric Plant. The study involved development of annual depreciation rates for the company's electric plant including generation, transmission and general plant. The study included a field inspection of power plants, major substations, operations centers and office buildings; discussions with management regarding outlook; statistical analyses of service life and net salvage, and calculation of annual and accrued depreciation. The depreciation study filed with the Kentucky Public Service Commission in May of 2006 and the Rural Utilities Service in June of 2006.
- *Anchorage Water and Wastewater Utility (AWWU), Anchorage, Alaska* – Testimony on Contributed Plant and Depreciation Studies for Water and Wastewater Plant. The first assignment included rebuttal testimony on behalf of the company related to its accounting treatment of contributed plant. The depreciation studies included field inspections of the treatment plants, major pumping stations, and offices; discussions with management regarding outlook; data assembly; statistical analysis of service life and net salvage; and calculation of annual and accrued depreciation related to plant in service as of December 31, 2005.

DONALD J. CLAYTON

- *Kansas City Southern Railroad (KCS), Kansas City, Missouri* – Capitalization Policy and Depreciation Studies for Kansas City Southern, Kansas City Southern de Mexico, and Texas Mexican Railway. The first assignment involved development of a revised capitalization policy. The Company's existing capitalization policy and retirement units catalogue were compared with those of other class I and passenger railroad companies and revisions were suggested and subsequently adopted by the company. The depreciation studies involved discussions with management regarding outlook, statistical aging of the subsidiary company property, service life and net salvage analysis and calculating of annual and accrued depreciation.
- *East Resources, Inc., Pittsburgh, Pennsylvania* – Base Rate Case Filing. The assignment involved preparation of a complete base rate case filing for the Company's West Virginia gas utility division. Exhibits were prepared in conformance with the West Virginia Commission's filing requirements under Rule 42. Direct testimony was prepared and responses to numerous data requests were completed. The case was filed in April 2006 and was settled in September 2006.

2002 – 2005CONJUNCTION, LLC
PRESIDENT AND CHIEF OPERATING OFFICER

Conjunction LLC was formed to develop a high voltage direct current transmission line from upstate New York to New York City.

- Responsible for day-to-day activities of the firm, raising equity capital to fund the project and negotiation of numerous contracts and agreements between the Company and its consultants, lawyers, land owners and investors.
- Responsible for preparation of the Company's transmission siting filing under Article VII before the New York Public Service Commission and the FERC filing for merchant transmission line status.

2000 – 2002ENERGY LEADER CONSULTING, LLC
PARTNER

Energy Leader Consulting provided strategic consulting to energy companies concerning opportunities related to electric generating stations.

- Performed acquisition analysis for generating stations, identification of power plant development opportunities throughout the U.S. market and diagnostic studies for electric generators.
- Led multi-million dollar study for Amtrak to determine the feasibility of using their railroad rights-of-way for electric transmission.

1985 – 2000DQE
VICE PRESIDENT AND TREASURER
PRESIDENT – AQUASOURCE
MANAGER – VALUATION AND PROPERTY RECORDS DEPARTMENT

- Mr. Clayton developed and directed the AquaSource subsidiary where he managed all aspects of a rapidly-growing business, including development of the initial business plan, integration of acquisition targets, recruitment of executive staff, and political and regulatory relations. He also headed the rate case filed in Texas for a statewide tariff related to the small water and wastewater companies acquired by AquaSource.
- As Vice President and Treasurer, Mr. Clayton was responsible for corporate finance, financial planning, corporate budgeting, cash management and investor and shareholder relations during a period of unprecedented organizational and marketplace changes. While he was Vice President and Treasurer, he was the stranded cost witness for Duquesne Light Company in their restructuring proceeding before the Pennsylvania Public Utility Commission.

DONALD J. CLAYTON

- Mr. Clayton's first position with DQE was as Manager of the Valuation and Property Records (Fixed Assets) department, where he was responsible for the Company's \$5+ billion of fixed assets and the construction cost accounting system, at a time when two nuclear electrical generation plants were being built and added to rate base. While in this position, he was the company's rate base and depreciation witness in its two largest rate cases.

1980 – 1985 PRICE WATERHOUSE
MANAGER, PUBLIC UTILITY INDUSTRY SPECIALTY GROUP

- Performed numerous cost-of-service, rate design, depreciation and other valuation and rate related assignments for electric, gas, water and sewer clients in the public and private sectors.
- Developed a PC-based cost of service program and completed a program for evaluating street lighting.

1977 – 1980 GANNETT FLEMING, INC.

- Performed numerous studies in the areas of depreciation and cost of service for electric, gas, telephone, water, wastewater and railroad companies.
- Presented expert testimony before the Pennsylvania Public Utility Commission, the Alaska Public Utilities Commission and Monmouth County Court in New Jersey.
- Completed assignments for more than 50 companies, including electric, gas, water, and telephone and railroad clients.
- Participated in the valuation related to the \$2.1 Billion conveyance of the former Penn Central Railroad to Conrail and provided the analytics for three successful tax cases involving more than \$300 million in tax depreciation for the Union Pacific, the Burlington Northern and the Chesapeake & Ohio Railroads.

Continuing Education

- All programs offered by Depreciation Programs, Inc.
- Management training courses offered by the Edison Electric Institute.
- Utility accounting seminars offered by Salomon Brothers.

Professional Societies

Mr. Clayton is an active member of the Society of Depreciation Professional where he is an instructor at their annual depreciation training sessions. He has taught the basic life analysis course and the advanced course on preparing and defending a depreciation study.

April 1, 2011

Donald J. Clayton
Testimony and Regulatory Proceedings

Regulatory Cases				Company			Utility Type		Primary Issue	
State	Agency	Docket Number								
AK	RCA	U-04-22		Anchorage Water and Wastewater Utility			Water/Wastewater		Contributed water/wastewater plant and depreciation	
AK	RCA	U-04-23		Anchorage Water and Wastewater Utility			Water/Wastewater		Contributed water/wastewater plant and depreciation	
FL	FLPSC	090182		NI Florida, LLC (Hudson)			Wastewater		Complete rate case preparation	
FL	FLPSC	100149		NI Florida, LLC (Tampa)			Water		Complete rate case preparation	
IN	IURC	Cause No. 43201		Citizens Thermal			Steam, Thermal		Depreciation	
IN	IURC	Cause No. 43463		Citizens Gas & Coke Utility			Gas		Depreciation	
IN	IURC	Cause No. 43824		Citizens Gas of Westfield			Gas		Depreciation	
KY	KYPSC	2009-00236		East Kentucky Power Cooperative			Electric		Depreciation	
N/A	FERC	ER-07-562-004		Trans-Allegheny Interstate Line Company (Allegheny)			Electric		Depreciation and Net Salvage for Static Var Compensator	
N/A	FERC	ER-08-386-000		Potomac-Appalachian Transmission Highline, LLC (AEP/Allegheny Energy)			Electric		Depreciation and Net Salvage of Transmission Plant	
N/A	FERC	ER-09-35-000		Tallgrass Transmission, LLC (AEP/MidAmerican/OGE)			Electric		Depreciation and Net Salvage of Transmission Plant	
N/A	FERC	ER-09-36-000		Prairie Wind Transmission, LLC (AEP/MidAmerican/Western)			Electric		Depreciation and Net Salvage of Transmission Plant	
N/A	FERC	ER-09-75-000		Pioneer Transmission, LLC (AEP/Duke Energy)			Electric		Depreciation and Net Salvage of Transmission Plant	
OK	OCC	Cause Nos. PUD 200800144		Public Service Company of Oklahoma (AEP)			Electric		Net salvage	
OR	ORPUC	UG 201		Avista Corporation			Gas		Cash working capital	
PA	PAPUC	R-860378		Duquesne Light Company			Electric		Rate base and depreciation	
PA	PAPUC	R-870651		Duquesne Light Company			Electric		Stranded cost and electric industry restructuring	
PA	PAPUC	R-00974041		Duquesne Light Company			Electric		Revenue requirements, cost of service, cost of capital, rate design	
TX	TCEQ	(SOAH) 562-09-4290		Country Vista			Water		Revenue requirements, cost of service, cost of capital, rate design	
TX	TCEQ	(SOAH) 562-08-0702		Shaded Lane Water Company			Water		Rate base, cost of service, cost of capital, working capital and revenue requirements	
WV	WVPSC	06-0446-G-42T		East Resources			Gas		Rate base, cost of service, cost of capital, working capital and revenue requirements	
WV	WVPSC	06-0276-G-42T		East Resources			Gas		Rate base, cost of service, cost of capital, working capital and revenue requirements	
WV	WVPSC	09-2059-G-42T		Megan Oil & Gas Company			Gas		Rate base, cost of service, cost of capital, working capital and revenue requirements	
WV	WVPSC	10-0767-G-D		Megan Oil & Gas Company			Gas		Rate base and accumulated depreciation related to request for change in depreciation rates.	
WV	WVPSC	05-0420-E-CN		Monongahela Power Company and The Polomac Edison Company (Allegheny Energy)			Gas		Rate base and accumulated depreciation related to request for change in depreciation rates.	
Case Support (No testimony filed)										
State	Agency	Docket Number		Company			Utility Type		Primary Issue	
FL	FLPSC	100126		CFAT H2O, Inc.			Water/Wastewater		Complete rate case preparation, including rate base, cost of service, cost of capital, working capital, billing analysis and revenue requirements	
FL	FLPSC	100127		Tradewinds Utilities, Inc.			Water/Wastewater		Complete rate case preparation, including rate base, cost of service, cost of capital, working capital, billing analysis and revenue requirements	
ID	IPUC	AVG-10-01-E		Avista Corporation			Electric/Gas		Cash working capital study	
ID	IPUC	AVG-10-01-G		Avista Corporation			Electric/Gas		Cash working capital study	

April 1, 2011

Donald J. Clayton
Testimony and Regulatory Proceedings

State	Agency	Docket Number	Company	Utility Type	Primary Issue
WA	WUTC	UE-100467	Avista Corporation	Electric/Gas	Cash working capital study
WA	WUTC	UG-100468	Avista Corporation	Electric/Gas	Cash working capital study
Case Support (No testimony filed)					
State	Agency	Docket Number	Company	Utility Type	Primary Issue
WV	WVPSC	08-2030-E-PC	Black Diamond Power Company, Elk Power Company, Union Power Company, West Virginia Utility Company	Electric	Merger justification and support Complete Rule 42 Exhibit preparation, including rate base, cost of service, cost of capital, working capital and revenue requirements
WV	WVPSC	09-1985-E-42T	Black Diamond Power Company	Electric	Complete Rule 42 Exhibit preparation, including rate base, cost of service, cost of capital, working capital and revenue requirements
WV	WVPSC	09-1986-E-42T	Elk Power Company	Electric	Complete Rule 42 Exhibit preparation, including rate base, cost of service, cost of capital, working capital and revenue requirements
WV	WVPSC	09-1987-E-42T	Union Power Company	Electric	Complete Rule 42 Exhibit preparation, including rate base, cost of service, cost of capital, working capital and revenue requirements
Other Cases					
State	Agency	Docket Number	Company	Utility Type	Primary Issue
NJ	N/A	N/A	International Flavors and Fragrances	Wastewater	Cost of service, rate design
N/A	RUS	N/A	East Kentucky Power Co-op	Electric	Depreciation
N/A	STB	N/A	Kansas City Southern Railroad	Railroad	Depreciation